(d) if so, what action RBI has taken against such banks?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMANICKAM): (a) to (d) Based on Market Intelligence reports in 2003 that certain banks have adopted the undesirous practice of swapping of their sticky loans, RBI has already cautioned its Inspecting Officers in March 2004 to look out for this practice during the Annual Financial Inspection cycle of 2004-05.

Kelkar Committee Report

1346. SHRI RAJIV SHUKLA: Will the Minister of FINANCE be pleased to state:

(a) whether the Kelkar Committee on Tax Reforms has submitted its report to the Government;

(b) if so, the main recommendations thereof; and

(c) the decision taken by Government thereon?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMANICKAM): (a) The reports of the Kelkar Task Force on Tax Reforms pertaining to direct and indirect taxes was submitted in December, 2002. A Task Force on the implementation of the FRBM Act, 2003 also submitted its Report in July, 2004.

(b) and (c) So far as Task Force on Direct Taxes is concerned, the details of the main recommendations and the action taken thereon by the Government is given in the statement-I (*See* below).

So far as Task Force on Indirect Taxes is concerned, the details of main recommendations and the action taken are given in statement-II (*See* below).

The Report of the Task Force on implementation of the FRBM Act, 2003, is in public domain.

Statement-I

The main recommendations of the Kelkar Committee pertaining to Direct Taxes and the action taken thereon by the Government

Major Recommendations	Action Taken
* Just two slabs-income from 1 to 4 lakhs - 20%, income above 4 lakhs - 30%. Surcharge to be withdrawn. Exemption limit for senior citizens to be 1,50,000. * Standard Deduction to withdrawn. * Withdrawal of Section 88 Rebate on investment in PPF, GPF, Insurance etc. * Existing deduction of Rs. 10,000 under section 80CCC on investment in pension/equity schemes of LIC and other Insurance companies to be converted into a Rebate. The investment amount should be raised to Rs. 20,000 on which rebate of Rs. 4,000 would be available. Withdrawal of rebate for women and sr. citizens and raising the exemption limit for widows and sr. citizens to Rs. 1.5 lakhs * Withdrawal of deduction under Section 80L relating to dividend income, interest income etc. * Deduction under Sections 80D (medical insurance premium), 80E (educational loan) and 80G (donation for charities), 80U & 80DD (handicapped persons and dependants) to be available as rebate @ 20%. Section 80DDB (treatment of cancers etc.) to be available for sr. citizens only @ 20% rebate. * Savings incentives u/s 10 relating to interest on post office deposits, relief bonds, public sector bonds, employees scheme, etc. may be withdrawn. * The deduction for mortgage interest in respect of loans for acquiring a owner occupied dwelling to be reduced from 1,50,000 to Rs. 50,000.	Not accepted
Reduction of Corporate tax rate from 36.75% to 30% with no surcharge	Not accepted
Dividend Tax should be exempt in the hands of the shareholders and no Dividend Distribution Tax is to be imposed.	Partially accepted. Dividend tax abolished through Finance Act, 2003. Dividend distribution tax introduced @ 12.5% on dividend declared by corporates.

Major Recommendations	Action Taken
Withdrawal of tax incentives u/s 10A (industries in free trade zones, etc.), 10B (100% EOUs), 80-IA (infrastructure development provider for roads, airports, water supply projects, power supply projects etc.), 80-IB (backward areas, cold storage projects, scientific projects etc), 80-JJA (biodegradable waste) and 80-JJAA (employment of new workmen) with immediate effect.	Not accepted.
Withdrawal/reduction of incentives under section 35 relating to scientific research and development.	Not accepted.
Withdrawal of tax incentives u/s 35AC.	Not accepted.
Distinction between carry forward and set-off of unabsorbed depreciation and unabsorbed business loss may be removed and both may be allowed to be carried forward indefinitely.	Not accepted.
Taxation of Agricultural income.	Not accepted.
Wealth tax may be abolished.	Not accepted.
Expenditure tax may be abolished.	Accepted. Necessary amendment carried out through Finance Act, 2003.
Tax rate for firms to be reduced to 30%.	Not accepted.
The unusual category of 'Not Ordinarily Resident' should be omitted.	Not accepted.
<u>Taxation of Capital Gains.</u>	
* Loan term capital gain on equity to be exempt from tax.	Partially accepted. Necessary amendment carried out with respect to eligible shares through Finance Act, 2003.
* Long-term capital gains on other assets to be aggregated with other income and subject to normal rate of taxation.	Not accepted.
* Income of mutual funds from Short term capital gain and interest to be taxed at 20%. Such income of venture capital funds etc. to be taxed at 30%.	Not accepted.
<u>Charitable Trust</u>	
(a) Deduction under section 80G to be converted to a tax rebate @ 20%.	Not accepted.
(b) No quantitative ceiling on donation for charities.	

Major Recommendations	Action Taken
(c) Exemptions under section 10(21), 10(23B), 10(23C)(iiiab) to (via) and 10(29A) may be merged with sections 11 to 13.	
* Block assessment should be omitted. As and when the concealment is detected and established, it should suffer full penal consequences of interest, penalty and prosecution.	Accepted. Necessary amendment carried out through Finance Act, 2003.
* Stocks found during the course of search and seizure operation may only be inventorised and not seized.	Accepted. Necessary amendment carried out through Finance Act, 2003.
* A survey should be authorised only by Joint Commissioners and above.	Accepted. Necessary amendment carried out through Finance Act, 2003.
* Responsibility of issuing PAN to be shifted to an outside agency.	Accepted.
* Annual information return are to be filed by persons required to report details of their financial dealings with other taxpayers. This may require listing of all transactions of a certain kind, e.g. payments of corporate dividend or transactions of other kind beyond a level with other taxpayers during certain period.	Accepted. Necessary amendment carried out through Finance Act, 2003.

Statement-II

INFORMATION PERTAINING TO INDIRECT TAXES:

Central Excise & Service Tax:

Recommendation	Comments
Multiplicity of taxes should be avoided. There should be only one levy, i.e. CENVAT.	Accepted. The difficulty in implementing this is because of cesses where the funds are meant exclusively for the Union.
A two tier excise duty structure of 6% and 14% to be prescribed in the long run.	A 3-tier duty excise structure of 8%, 16% and 24% has been brought into effect.
The tax base should be widened to improve the tax to GDP ratio. As	The exemptions are being withdrawn as far as possible.

a policy all exemptions must be removed and we should move to a budgetary mechanism for giving the same relief.

Petroleum Sector

For HSD and Motor Spirit specific rates may be prescribed with quarterly review.

Duty on kerosene may be raised by Rs. 1/litre. Additional duty of Rs. 1/litre to be imposed on Light Diesel Oil.

Textile Sector

Uniform duty of 16% on fibres and yarn (including on cotton yarn). Duty on Polyester filament yarn to be brought down to 14% in four instalments, i.e., 28% in 2003, 24% in 2004-05, 20% in 2005-06 and 14% in 2006-07.

Uniform duty on unprocessed fabrics (knitted or woven) at 12% till 2004-05.

All exemptions other than on hand weaving, hand processing, khadi, polyvastra, jute products, synthetic fabrics manufactured from shoddy yarn and consumed captively, may be removed.

Excise duty on coated and bonded fabrics should be at 16%.

Deemed credit scheme to be withdrawn.

12% duty to be maintained on *Ad valorem* rates on petroleum products have been retained.

Specific rate was not accepted as it will affect buoyancy.

Additional duty of Rs. 1.50/ litre has been imposed on Light Diesel Oil. Additional duty on petrol and diesel has also been increased from Rs. 1/litre to Rs. 1.5/litre. Kerosene duty increase was not agreed to.

In budget 2004-05, CENVAT scheme for textiles has been made optional. There shall be a mandatory duty only on man—made fibres (artificial and synthetic staple fibres and filament yarns). Except for these duties, textile goods (yarn, fabrics, garment, articles of chapter 50 to 63) have been fully exempted from excise duty, if no credit of input duties is taken under the CENVAT Credit Rules.

ready made garments and SSI exemption to be removed.	
Small Scale Exemption	
Duty exemption limit should be based on the value of total (including exempted but excluding export clearances) clearances.	Accepted. The aggregate value of clearances for determining eligibility limit now includes exempted clearances except exports.
Full exemption limit should be gradually brought down from Rs. 1 crore to Rs. 50 lakhs by 2005-06, i.e., Rs. 1 crore to continue in 2003-04 and Rs. 75 lakhs in 2004-05 and Rs. 50 lakhs in 2005-06. .	Full exemption limit continues at Rs. 1 crore.
Service Tax	
Service tax should be levied on all services except for a negative list.	Accepted in principle.
Extension of CENVAT and service tax credit to all services.	Credit has been extended across all services. In budget 2004-05, a provision has been made in the Finance Bill for allowing credit of service tax and CENVAT across goods and services.
Rate of service tax should be enhanced in view of extension of credit. There should be two rates one for those who avail credit and the other for those who do not.	Service tax rate was enhanced to 8% for all. In budget 2004-05, it is proposed to be raised further to 10%. Different rates, however, were not accepted.
Value of services upto Rs.10 lakhs to pay tax at 1%.	Not accepted.
Classification of services to be based on WTO classification.	A classification scheme has been announced. However, presently only specified services are under tax net. Therefore, it was decided to defer adoption of all encompassing WTO classification.

Customs: Recommendation	Comments
Multiplicity of levies should be reduced. There should be only 3 levies namely, basic customs duty, CVD and anti-dumping duty.	Accepted in principle.
Removal of SAD should be linked to implementation of State VAT.	SAD has been abolished, without waiting for State VAT which is likely to take more time.
A four-tier customs duty structure of: 5% (for basic raw materials) 8% (for intermediates used for further manufacture) 10% (for finished goods other than consumer goods) and 20% for consumer durables.	Peak rate has been reduced to 20%. Peak rate of customs duty for metals has been reduced to 15%. This is a continuous process, and will be done taking into account the revenue needs and the need to protect domestic industry.
The tax base should be widened to improve the tax to GDP ratio and improve tax administration. As a policy all exemptions must be removed except in case of: ☐ life saving goods, ☐ goods of security and strategic nature, ☐ goods for relief and charitable purposes and ☐ international obligations.	Exemptions are being removed as far as possible. As a policy, end-use based and sector-specific exemptions are avoided.

LIC's share in ICICI Bank

1347. SHRI JANARDHANA POOJARY: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that LIC has raised its stake in ICICI bank;